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Chile

Dairy and Products

Annual

2006

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Report Highlights:
Chile's dairy production this year is expected to expand. Good weather conditions improved forage production and milk productivity. An increase in milk prices paid to farmers due to an increase in export demand for dairy products is expected to expand output in the coming years.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

Chile's milk production is expected to increase in 2006 (Jan-Dec). Good prices paid to producers together with good weather conditions, which improved forage supplies, are the main factors for the larger output. Domestic milk prices are an important factor that affects total milk output. Additionally weather is an important factor for pasture production, Chile's basic feed input. The outlook for the next three-to-five years milk production also will depend on international dairy prices, government policies, and continued improvements in technology and animal genetics.

Production

Production General

Chile's total milk output in CY2005 rose from 2.25 billion to 2.30 billion liters, mainly due to an increase in productivity in the milk-producing herd. Good climatic conditions in the primary dairy producing regions of the country, together with higher prices paid by the dairy industry during the last few years, were the main factors affecting total production. Better prices paid to producers by the domestic milk industry allowed a larger number of producers to use supplemental feeding with concentrates to make up for deficiencies in their pastures to increase the production level of their herds.

As a result of good price paid to producers in 2004 together with good weather in the main milk-producing region, which had a positive effect on pasture, production of milk is expected to increase another 4 percent in MY2006, to 2.40 billion liters. Chile currently has an estimated 49,000 dairy farmers with approximately 620,000 cows in production.

TABLE - Dairy Production

	Total Rec'd by Industry	Fluid Milk	Dry Milk	Butter	Cheese	Farmers Cheese	Yogurt	Conden. Milk
Year	--Million Liters--		--------------------------Thousand Kilograms-------------					
1980	592	127	32,566	4,016	13,902	3,868	15,054	7,835
1990	890	138	45,126	6,448	24,513	5,422	0,939	8,325
1995	1,358	225	61,418	6,651	40,816	5,873	67,663	8,674
1997	1,497	271	65,726	9,582	43,712	7,106	79,423	10,219
1998	1,530	269	70,877	11,159	46,528	7,631	82,243	13,244
1999	1,470	279	60,597	11,007	44,777	7,034	100,203	15,742
2000	1,447	275	59,669	9,855	44,718	7,167	106,624	24,400
2001	1,637	291	71,464	11,836	50,417	7,150	95,249	25,418
2002	1,605	296	67,710	11,551	53,075	7,480	127,057	24,190
2003	1,563	293	61,867	10,849	53,037	7,555	139,344	30,558
2004	1,676	289	63,633	13,084	58,849	8,296	159,828	38,698
2005	1,723	298	62,792	14,655	67,176	10,507	189,436	39,645
Source: Ministry of Agriculture								

Trade

Chile became a net exporter of dairy products in CY2004, the dairy industry's exports exceeded imports in volume and value. In CY2005 the trade balance fell when compared to the previous year, but exports still exceeded imports in volume and value. Latin American countries are the main destination for Chile's dairy exports. Reportedly, the industry's goal is to export US$150 million in milk and dairy products in 2006.

Policy

Although Chile bound its dairy product import duties (HS 04.02, 04.05, 04.06) at 31.5 percent in the Uruguay Round, a flat import tariff of 6 percent is applied on nearly all imported dairy products. Additionally, a value-added tax of 19 percent is charged at the consumer level on all goods, domestic or imported. Chile has reduced import duties only for Colombia and the United States for whole and non-fat dry milk as a result of the Free Trade Agreements with these countries. Non-fat dry milk will enter duty free in 2007 and whole dry milk will be tariff free in 2011. Colombia will have duty fee access for both, whole and non-fat dry milk by 2012. For all other countries that have signed agreements with Chile, dairy products are excluded from the tariff reduction schedule.

TABLE-Chilean Tariff Reduction Schedule for Whole Dry Milk 0402.2118

Country of Origin	2004	2005	2006	2007	2008	2009	2010	2011	2012
Bolivia	Free of Duty								
Canada	General Tariff, 6%. Product excluded of tariff reduction								
Colombia	6%	6%	6%	5%	4%	3%	2%	1%	0
Costa Rica	General Tariff, 6%. Product excluded of tariff reduction								
Ecuador	General Tariff, 6%. Product excluded of tariff reduction								
El Salvador	General Tariff, 6%. Product excluded of tariff reduction								
U.S.	5,25%	4,5%	3,75%	3,0%	2,25%	1,5%	0,75%	0	0
Mexico	General Tariff, 6%. Product excluded of tariff reduction								
Mercosur	Free of Duty								
Peru	General Tariff, 6%. Product excluded of tariff reduction								
EU	6%	6%	At the third year a revision of the agreement						
Venezuela	General Tariff, 6%. Product excluded of tariff reduction								

TABLE-Chilean Tariff Reduction Schedule for Nonfat Dry Milk 0402.2118									
Country of Origin	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Bolivia	General Tariff, 6%. Product excluded of tariff reduction								
Canada	General Tariff, 6%. Product excluded of tariff reduction								
Colombia	6%	6%	6%	5%	4%	3%	2%	1%	0
Costa Rica	General Tariff, 6%. Product excluded of tariff reduction								
Ecuador	General Tariff, 6%. Product excluded of tariff reduction								
El Salvador	General Tariff, 6%. Product excluded of tariff reduction								
U.S.	5%	3%	2%	0	0	0	0	0	0
Mexico	General Tariff, 6%. Product excluded of tariff reduction								
Mercosur	Free of Duty								
Peru	General Tariff, 6%. Product excluded of tariff reduction								
EU.	6%	6%	At the third year a revision of the agreement						
Venezuela	General Tariff, 6%. Product excluded of tariff reduction								

As a result of Chile's trade agreements, the dairy industry expects to increase its export market share. The US – Chile FTA provides for a 3,500 metric ton duty free quota for Chilean dairy products. This volume increases 10 percent each year until Chile gains duty free access in 2016. The agreement with the EU offers a duty free quota of 1,500 Tons, with a yearly increment of 5 percent. The agreement reached with South Korea gives only a 1,000 Metric Ton duty free quota for whey powder, but there is an agreed upon reduction in the high duties for dairy products like yogurt and cheese in 10 years. Duties applied to these products are 40 and 38 percent respectively.

The effort to increase domestic consumption of milk and milk products continues with a promotional campaign, which is evenly financed by the producers, the industry and the government. These three players have agreed to form and finance an association (Promolac), which spend approximately 900 million Chilean pesos on the publicity campaign in CY2004, increased it to 1,200 million Chilean pesos in 2005 and the budget was reduced to only an estimated 600 million pesos for CY2006. Promotion of fresh milk consumption is mainly through TV and printed media.

Due to an influx of dairy imports mainly from Argentina, which doubled over the past year, the GOC initiated at the request of the National Milk Producers' Federation an investigation to determine the possibility of imposing a safeguard measure against imports. After lengthy discussions the Chilean Commission of Distortions finally decided on imposing a provisional safeguard on dried and fluid milk, and Gouda cheese imports from Argentina only. The share of imports from Argentina increased from 35 percent in 2005 to over 75 percent in 2006. The imposed safeguard rate, which came into effect October 13, 2006, is 23 percent. The provisional safeguard will be applied for 200 days, during this time the GOC has to decide on a final safeguard rate or suspend the measure.

Whole Dry Milk

Production

Close to 90 percent of Chile's production of dry milk is whole milk powder. Production of whole dry milk fell slightly in CY2005, as demand and production for other dairy products (butter, cheese, yogurt) outgrew increases of milk deliveries to the industry, production of whole dry milk fell when compared to the previous year. For 2006, the industry expects whole dry milk production to increase again, as consumption and export demand for dry milk is increasing.

Consumption

Dry milk is available for sale in practically all Chilean supermarkets and smaller grocery stores. Families that do not consume large quantities of milk or lack refrigerators to keep UHT fresh after opening prefer dry rather than fluid milk. Ultra high heat treated milk (UHT milk) is very common in Chile because you can store the containers for long time without refrigeration, but once opened the containers have to be kept in refrigerators. Government food programs also account for a significant proportion of dry milk consumption. Government tenders for dry milk may be filled by either domestic or imported product. During the winter months, the industry reconstitutes fluid milk from dry milk produced during the summer, in order to produce dairy products that have a constant demand throughout the year.

Trade

Low international prices together with an expected fall in domestic milk production, led to importers' over reaction, which resulted in the amount of imported dry milk larger than previously estimated in 2005.

Chile's dry milk export markets are expected to expand in the coming years as the industry becomes more competitive. In the long-term, Chile's success in the dairy export market will depend upon its ability to compete with other countries. Chile's main export markets are in Latin America, particularly Cuba, Mexico, Brazil and Bolivia.

PSD Table									
Country	Chile								
Commodity	Dairy, Dry Whole Milk Powder						(1000 MT)		
	2005	Revised		2006	Estimate		2007	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		01/2005	01/2005		01/2006	01/2006		01/2007	01/2007
Beginning Stocks	4	4	4	3	3	2	4	4	4
Production	55	55	47	60	60	54	0	0	58
Other Imports	5	5	7	5	5	9	0	0	7
Total Imports	5	5	7	5	5	9	0	0	7
Total Supply	64	64	58	68	68	65	4	4	69
Other Exports	8	8	6	11	11	10	0	0	12
Total Exports	8	8	6	11	11	10	0	0	12
Human Dom. Consumption	53	53	50	53	53	51	0	0	53
Other Use, Losses	0	0	0	0	0	0	0	0	0
Total Dom. Consumption	53	53	50	53	53	51	0	0	53
Total Use	61	61	56	64	64	61	0	0	65
Ending Stocks	3	3	2	4	4	4	0	0	4
Total Distribution	64	64	58	68	68	65	0	0	69
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0

Import Trade Matrix			
Country	Chile		
Commodity	Dairy, Dry Whole Milk Powder		
Time Period	Jan-Dec	Units:	M.T.
Imports for:	2005		2006
U.S.	0	U.S.	0
Others		Others	
Argentina	3093	Argentina	5210
Uruguay	2673	Uruguay	130
New Zealand	594	New Zealand	49
Brazil	288	Brazil	25
		France	13
Total for Others	6648		5427
Others not Listed	0		0
Grand Total	6648		5427
Note: Year 2006 data are for January through August only			

Export Trade Matrix			
Country	Chile		
Commodity	Dairy, Dry Whole Milk Powder		
Time Period	Jan-Dec	Units:	M.T.
Exports for:	2005		2006
U.S.	652	U.S.	63
Others		Others	
Cuba	1145	Venezuela	1624
Argentina	824	El Salvador	446
Honduras	715	Guatemala	324
Guatemala	680	Dominican Rep.	250
Dominican Rep.	664	Cuba	200
El Salvador	527	Peru	92
Brazil	400	Bolivia	58
Venezuela	350	Honduras	52
Bolivia	94	Switzerland	4
Trinidad Tobago	32		
Total for Others	5431		3050
Others not Listed	33		1
Grand Total	6116		3114

Note: Year 2006 data are for January through August only

Nonfat Dry Milk

Production

Chile's NFDM production increased again in 2005, as milk output increased. Production in the coming years will depend upon expected prices in international markets and changes in food industry consumption or specific strategies from individual industries.

Consumption

Chile's food industry determines to a great degree the consumption level of NFDM in Chile. Leading products made from NFDM are chocolate, ice cream and yogurt. The consumption rate of these products is in line with Chile's economic growth. For 2005 and beyond, utilization is expected to continue to increase, but at a slower rate.

Trade

After many years Chile imported NFDM (non fat dry milk) from the US in 2006. Competitive US prices for NFDM is the main reason for US milk imports in 2006, according to industry sources.

PSD Table									
Country	Chile								
Commodity	Dairy, Milk, Nonfat Dry						(1000 MT)		
	2005	Revised		2006	Estimate		2007	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		01/2005	01/2005		01/2006	01/2006		01/2007	01/2007
Beginning Stocks	3	3	3	3	3	5	2	2	5
Production	10	10	12	11	11	14	0	0	15
Other Imports	5	5	7	5	5	8	0	0	8
Total Imports	0	0	0	0	0	0	0	0	0
Total Supply	18	18	22	19	19	27	2	2	28
Other Exports	0	0	0	1	1	0	0	0	0
Total Exports	0	0	0	1	1	0	0	0	0
Human Dom. Consumption	15	15	17	16	16	22	0	0	24
Other Use, Losses	0	0	0	0	0	0	0	0	0
Total Dom. Consumption	15	15	17	16	16	22	0	0	0
Total Use	15	15	17	17	17	22	0	0	24
Ending Stocks	3	3	5	2	2	5	0	0	4
Total Distribution	18	18	22	19	19	27	0	0	28
CY Imp. from U.S.	0	0	0	0	0	2	0	0	0

CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0

Import Trade Matrix			
Country	Chile		
Commodity	Dairy, Milk, Nonfat Dry		
Time Period	Jan-Dec	Units:	M.T.
Imports for:	2005		2006
U.S.	0	U.S.	1110
Others		Others	
Uruguay	3076	Argentina	2647
Argentina	2256	Uruguay	1307
Brazil	1096	Brazil	234
Canada	100	Canada	176
Total for Others	6528		4364
Others not Listed	0		0
Grand Total	6528		5474
Note: Year 2006 data are for January through August only			

Export Trade Matrix			
Country	Chile		
Commodity	Dairy, Milk, Nonfat Dry		
Time Period	Jan-Dec	Units:	M.T.
Exports for:	2005		2006
U.S.	0	U.S.	0
Others		Others	
El Salvador	198	El Salvador	80
Panama	75	Panama	49
Bolivia	21	Ecuador	36
Honduras	12	Honduras	12
		Bolivia	7
Total for Others	306		184
Others not Listed	0		
Grand Total	306		184
Note: Year 2006 data are for January through August only			